



Sourcing Strategically

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Sourcing Process



Unique
transaction for a
single customer

Sourcing Continuum

Long term sourcing
solution for multiple
customers

Sourcing solutions may be developed for single or multiple customers; supplies or services; and based on regional requirements or narrowly focused areas

Solutions for single customers fall between transactional requirements and large DON strategic sourcing efforts developed from a specific agency or geographic requirement

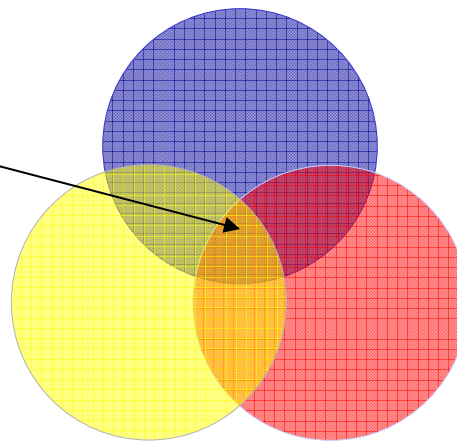
Multiple customer solutions require flexible solutions that can meet various agency requirements –there's a need for a sponsor or lead customer to promote the management of the requirement

The key is developing sourcing solutions that best match market capabilities with requirements

➤ Sourcing Vision:

- *Provide maximum support with pre-populated sourcing solutions*
- *Continue to review opportunities to reduce repetitive transactions*
- *Move towards strategic sourcing solutions that maximize value by providing sourcing solutions based on spend, value to the customer and number of customers supported by the solution.*

Maximize benefit/
sourcing solutions
for multiple
customers



Support low value/
unique requirements
with discrete
transactions



What is Strategic Sourcing

Strategic Sourcing is...

... the *collaborative* and *structured* process of critically analyzing an organization's spending and using this information to make business decisions about acquiring commodities and services more effectively and efficiently. *



*OMB letter 20 May 05

Primary Goal: Deliver Value for the Navy



Primary Benefits

Reduction in Cost Per Unit

Pricing Improvements

- Leverage service-wide / joint buying power
- Lower unit price
- Volume rebates
- Payment term discounts

Supply Chain Savings

- Cost of capital
- Warehousing costs
- Shipping costs

Reduced Lifecycle Costs

- Maintenance costs
- Operating costs
- Disposition costs

Change in Consumption / Volume

Demand Management

- Improve business intelligence regarding spend practices, cycle time and processes
- Eliminate demand
- Reduce consumption
- Encourage substitution
- Change product mix

Specification Review

- Eliminate "gold-plating"
- Simplify specifications
- Alternative products

Improved Operating Efficiency

Reduced Procurement-Related Operating Expense

- PO Processing
- Accounts Payable
- Receipt / Warehousing
- Standardized procurement process

Reduced Non-Procurement Related Operating Expense

- Other operating efficiencies

Performance Monitoring

- Structured metrics and periodic review of contractor performance

Improved Vehicle Management

Socio-economic Goals

- Structured analysis of small / disadvantaged business opportunities

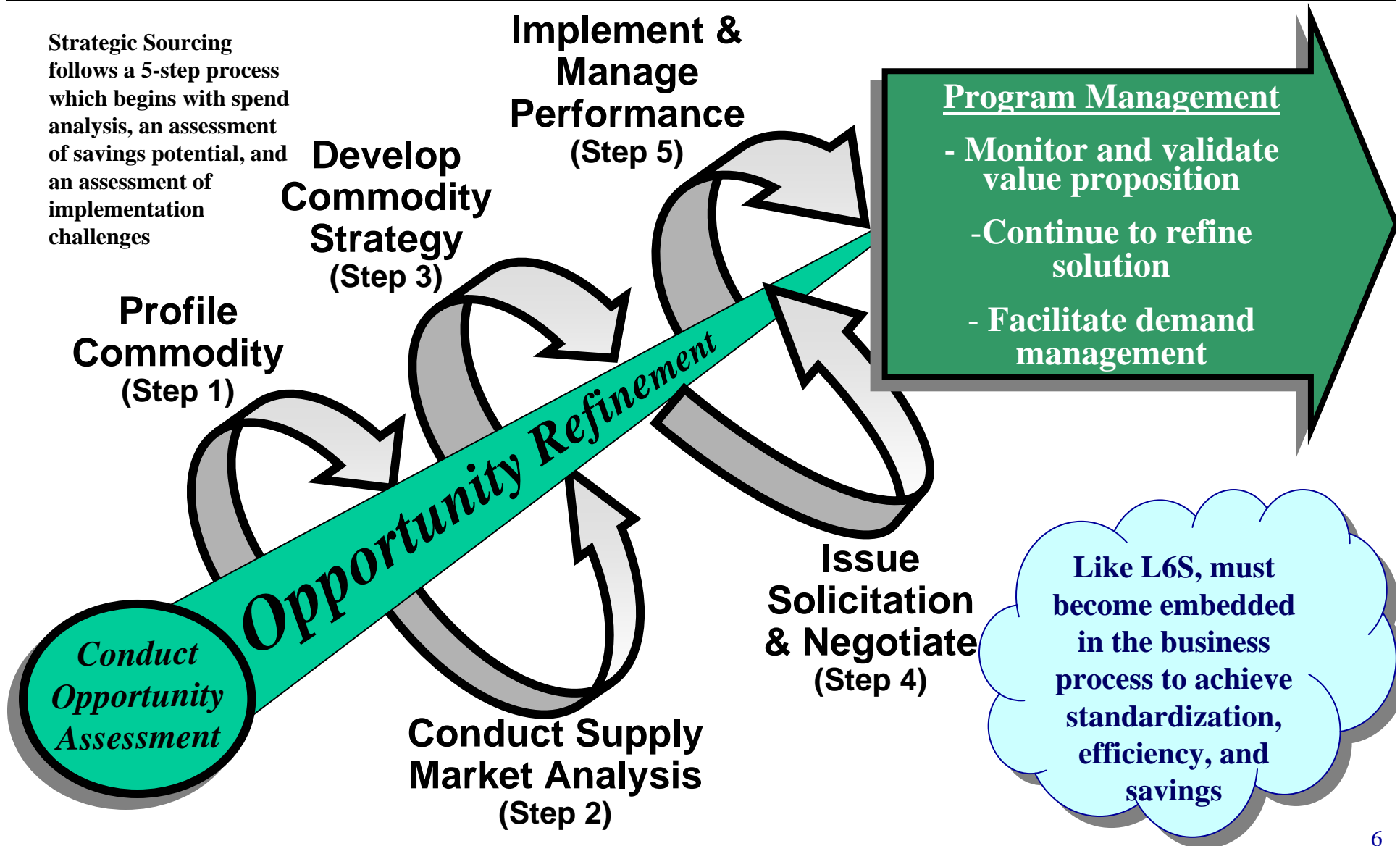
Optimized Supplier Relationships

- Improved joint understanding of needs and capabilities
- Increased efficiencies across the entire process chain



Strategic Sourcing Process

Strategic Sourcing follows a 5-step process which begins with spend analysis, an assessment of savings potential, and an assessment of implementation challenges





Recent Opportunity Assessment for Services

The Opportunity Analysis begins with a high level spend analysis.

TOP MASTER FSC SPEND (FY06) TOTAL SPEND \$3,866.1M

	Censeo Master FSC	Total	% of Spend	Cumulative %
1	ADP and Telecommunications Services	\$ 1,807,818,594	46.76%	46.76%
2	Management & Advisory Services	\$ 411,158,839	10.64%	57.40%
3	Maintenance, Repair, Rebuild Equipment	\$ 160,576,348	4.15%	61.55%
4	Miscellaneous Professional Services	\$ 132,302,751	3.42%	64.97%
5	Scientific/Eng/Technical Services	\$ 102,573,703	2.65%	67.62%
6	Operation of Specialized Buildings & Structures	\$ 95,883,801	2.48%	70.10%
7	Educational Services	\$ 95,698,234	2.48%	72.58%
8	ADP Equipment/Software/Supplies & Equipment	\$ 65,989,152	1.71%	74.29%
9	Housekeeping	\$ 64,111,306	1.66%	75.95%
10	Food Services	\$ 62,050,260	1.60%	77.55%
11	Other Defense R&D	\$ 58,445,390	1.51%	79.06%
12	Furniture	\$ 45,041,373	1.17%	80.23%
13	Communication Equipment	\$ 43,710,793	1.13%	81.36%
14	Temp & Admin Services	\$ 40,299,743	1.04%	82.40%
15	Environmental Services	\$ 32,674,406	0.85%	83.25%
16	Special Studies/Analysis, not R&D	\$ 32,331,486	0.84%	84.08%
17	Medical Services	\$ 31,898,618	0.83%	84.91%
18	Clothing/Individual Equipment & Insignia	\$ 23,165,394	0.60%	85.51%
19	Ships R&D	\$ 22,608,438	0.58%	86.09%
20	Instruments & Laboratory Equipment	\$ 22,540,068	0.58%	86.67%
	144 Others	\$ 515,208,092	13.33%	100.00%
	Total	\$ 3,866,086,789		

➤ Opportunity

➤ *Spend...\$76M (FY04)*

➤ *Leverage*

- ✓ Individual Items...Supply Mgmt (lower prices)
- ✓ "Whole Room" Concept...Demand Manag.

➤ DON Commodity Council

➤ *Major stakeholder participation*

➤ *Industry briefings to understand market segmentation*

➤ Status / Next Steps

- *March 07 - Acquisition strategy approved*
- *Apr 07 – Responses from FSS vendors*
- *Aug 07 – Issue BPAs*





Small Business Participation Navy Office Furniture

- **Market analysis highlighted small business subcontracting arrangements through teaming efforts with dealers for turnkey support services such as space layout and design services; installation and other ancillary services of their products.**
- **UNICOR will be awarded a BPA to allow them to compete to the maximum extent possible.**
- **Application of the non-manufacturing rule and thresholds for exclusive small business participation**
- **The Navy's proposed Office Furniture product sourcing solution will emphasize current levels of small business participation as a baseline.**
- **DoN's weighted average for FY05, attained from PMRS, purchase card data, and MILCON showed that the Navy awarded approximately 36.76 percent of its Office Furniture dollars to small businesses.**
- **As the DoD EMALL solution is implemented, buying patterns will be monitored to further assess the actual impact on small businesses.**



DON Office Supplies (Phase 4)

Commands	Office Supply PC Spend
CNO	\$2,058,833.47
SECNAV	\$951,735.57
ONR	\$965,382.12
ONI	\$204,118.74
BUMED	\$5,452,121.91
NAVAIR	\$4,817,933.54
CHNAVPERs	\$3,419,986.02
NAVSUP	\$3,653,976.94
NAVSEA	\$4,997,353.39
NAVFAC	\$1,798,925.52
Marine Corps	\$23,132,343.99
SSP	\$134,820.46
COMSC	\$775,583.02
SPAWAR	\$935,930.12
CNI	\$7,215,967.79
LANTFLT	\$21,870,722.37
USNAVEUR	\$422,122.39
NAVSECGRU	\$191,100.87
PACFLT	\$6,618,881.94
NAVRESFOR	\$2,325,480.22
SPECWARCOM	\$230,973.45
NETC	\$4,965,788.65
Grand Total	\$97,140,082.49

(Commodity Council Members)

➤ Acquisition Strategy

- ✓ Mandate use of DOD e-Mall...w/SERVMART exception
- ✓ Projected 10% lower prices
- ✓ Monitor socio-economic impact
- ✓ Capture specific demand and refine solution

➤ 12 August - DON Strategic Sourcing Coordination Group approved acquisition strategy

- ✓ Subject to small business baseline

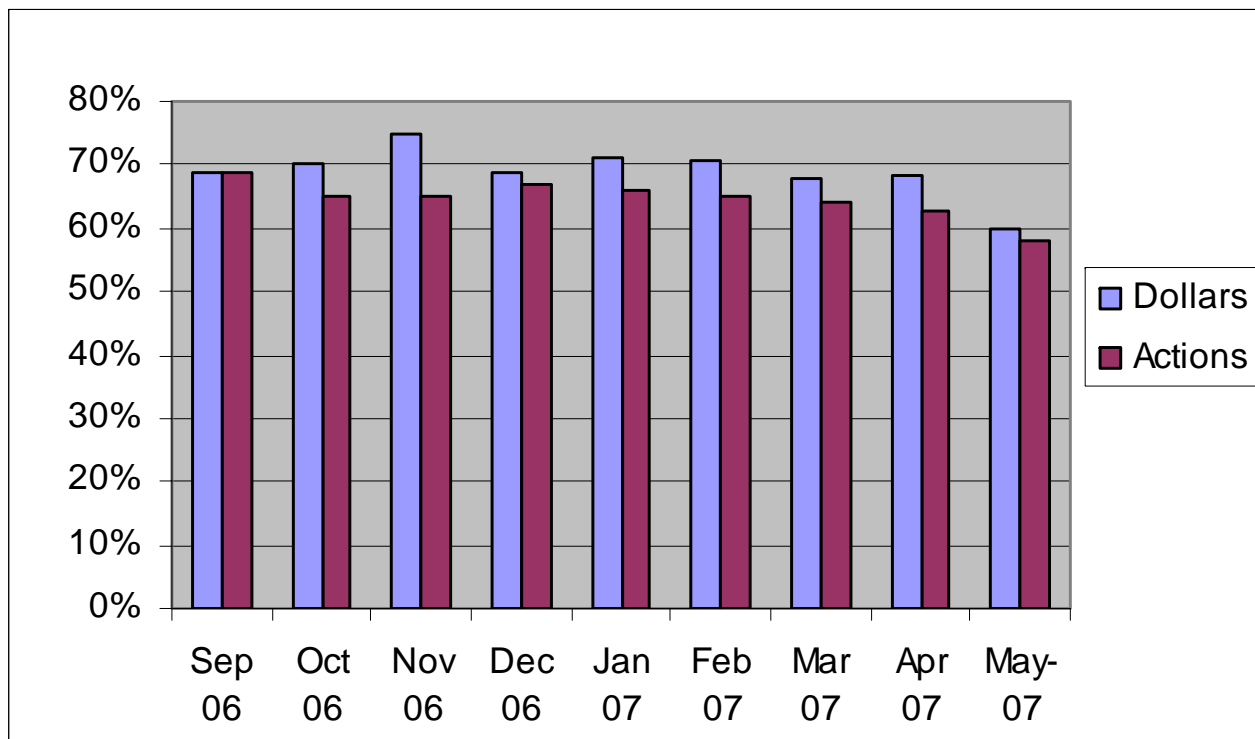
➤ Policy signed by ASN(RD&A) - 12 April 2006





Small Business Participation Navy Office Supplies

- Navy Office Supply Policy
 - All Navy customers are required to use DoD Email solutions
 - Physical Servmarts and existing Servmart contracts are exceptions
- Managed spend provides better business intelligence





DOD Level

- **Clerical and Administrative Support Service Commodity (Phase 5)**
 - **First Council under DOD-Wide Strategic Sourcing Program**
 - ✓ DON lead, all services and DLA participating
 - **DOD Senior Procurement Executives approved Acquisition Strategy Jan 05.**
 - ✓ Regional Coverage...Wash DC, Phil, & Norfolk
 - **FISC Norfolk Det Phil awarded 9 contracts on Oct 06**
 - ✓ Firm Fixed Price/Multiple Award Contracts
 - **Using SEAPORT as ordering vehicle**





DOD Clerical Services Contracts *Set-aside process*

***Multiple-award contract set-aside for Section 8(a),
HUBZone, and SDVOSB concerns.***

- Only 8(a) awardees can compete for follow-on orders to acquisitions previously acquired through the 8(a) program.
- Only non-8(a) awardees can compete for follow-on orders to acquisitions previously acquired through small business set-asides.
- Only HUBZone awardees can compete for follow-on orders to acquisitions previously acquired through HUBZone Set-asides; otherwise the requirement will be competed among all awardees.
- Only SDVOSB awardees can compete for follow-on orders to acquisitions previously acquired through SDVOSB Set-asides; otherwise the requirement will be competed among all awardees.
- Follow-on orders to work previously acquired on an unrestricted basis will be competed among all awardees.
- Orders for new work will be competed among all awardees.



Navy Sourcing...the way ahead

- **Continue driving towards sourcing strategically**
 - ***High level spend analysis being analyzed to id further opportunities***
 - ***Associated market research being conducted***
- **Targets of opportunities are being driven by savings**
- **Management of Navy supplies and services by market segments**